



INCOME TAXES

Individual and Corporate





Individual and Corporate Income Tax



Individual and Corporate Income Tax

Overview of Individual Income Tax

Montana's individual income tax was enacted in 1933 and continues to this day to be the largest source of state tax revenue. The state's income tax system is viewed as being "progressive" because taxpayers with higher incomes are taxed at a higher rate than taxpayers with lower incomes. In Montana, income is taxed according to a graduated rate structure with rates ranging from 2% to 11% of taxable income (*but see the following section on legislative changes*).

A significant feature of Montana's income tax is the substantial reliance on the federal tax code. Often described as a "tie to federal" alignment, this reliance allows the state to establish the essential elements of the state income tax by direct reference to federal definitions of income and deductions, and federal reporting procedures and protocol. This reliance is common among the 43 other states imposing individual income taxes. Most importantly, this approach allows both the state and its taxpayers to realize significant operating efficiencies. Without this parallel structure, Montanans would face increased complexity and substantially higher compliance costs.

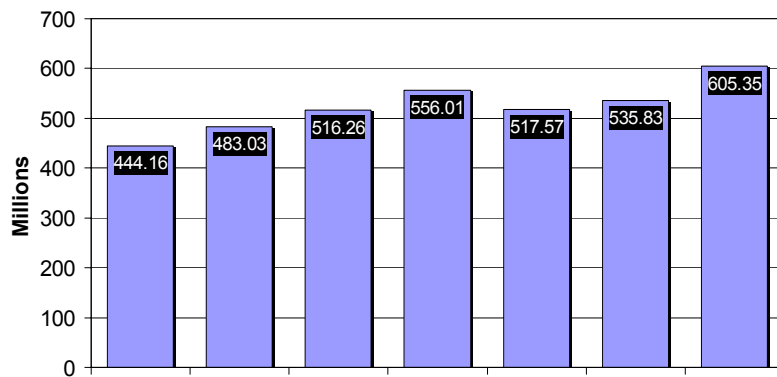
The income tax statutes do, however, reflect Montana-specific tax policy as determined by previous legislative assemblies. These policy directives are found in the areas of additions and reductions to federal adjusted gross income, unique itemized deductions and tax credits.

Montana is one of just a few states that allows taxpayers to deduct any federal income tax paid during the tax year in full (*see the following section on legislative changes*). Montana also allows two-earner married couples to file separate tax returns. This not only reduces household tax liability when compared to a requirement to file jointly, but also eliminates any "marriage penalty" at the state level.

Individual Income Tax Collections

FY1998	\$444,160,729
FY1999	\$483,031,569
FY2000	\$516,261,911
FY2001	\$556,014,554
FY2002	\$517,567,691
FY2003	\$535,830,664
FY2004	\$605,348,421

Individual Income Tax Collections





Individual and Corporate Income Tax

Since 1981, Montana's individual income tax – including the standard deduction, personal exemptions and tax rate table brackets – have been adjusted annually for inflation. This prevents increases in tax liability that would otherwise occur due simply to inflation.

Income tax revenues are collected primarily through employer withholding, quarterly estimated tax payments and payments made when a return is filed. Income tax revenues are distributed 100% to the state general fund.

Income Tax Returns and Refund Information				
Calendar Year	Total Number of Income Tax Returns	Number of Returns With Refunds	Returns w/Refunds as Percent of Total Number	Average Refund
1996	433,105	261,034	60%	\$ 341.24
1997	437,443	268,616	61%	\$ 361.37
1998	422,565	257,791	61%	\$ 597.25
1999	433,483	279,377	64%	\$ 500.75
2000	457,859	292,522	64%	\$ 456.56
2001	467,776	310,404	66%	\$ 500.31
2002	469,369	311,122	66%	\$ 501.34
2003	473,749	318,105	67%	\$ 493.44

2003 Legislative Session Changes

Major Reform Legislation

Senate Bill 407 (SB407) provided for the first significant reform of Montana's individual income tax since 1980. Effective January 1, 2005, individual income tax rates, which currently range from 2% to 11%, are reduced to range from 1% to a top rate of 6.9%. The number of income tax brackets is reduced from ten to seven. Whereas the current top rate of 11% takes effect for taxable incomes in excess of \$80,300; the new top rate of 6.9% will take effect for taxable incomes in excess of \$13,900 (tax year 2005). As with current law, the SB407 tax bracket boundaries will continue to be indexed annually for inflation. The state withholding tax tables were adjusted for 2005 to reflect the new tax rates and tax brackets.

Prior to SB407, taxpayers who itemized their deductions were allowed to deduct in full any federal income taxes paid during the tax year. Under SB407, this deduction is limited to \$5,000; married couples who file a joint income tax return will be allowed to deduct up to \$10,000 in federal income taxes paid.

Finally, SB407 institutes a new capital gains tax credit. Beginning with tax year 2005, taxpayers will be allowed a credit against their individual income tax liability equal to 1% of any capital gains reported for federal income tax purposes. Beginning with tax year 2007, this credit is increased to 2% of reported capital gains. These reform measures, scheduled to take effect January 1, 2005, are estimated to reduce income tax collections by \$92 million in the 2007 biennium.



Individual and Corporate Income Tax

Other Legislation

House Bill 452 created a new developmental disability services account (Department of Public Health and Human Services), and provided for a credit against individual income taxes equal to 30% of donations to the account. The credit is non-refundable, may not exceed \$10,000 per taxpayer, and may not be carried forward or backward. Donations for which a credit is claimed may not be taken as an itemized deduction.

House Bill 616 once again modified the provisions of Montana's tax credit for contributions to a qualifying charitable endowment. HB616 repealed certain sections of SB15 (2002 Special Session) that would have significantly increased the amount of the credit that could be claimed, and allowed other sections of that bill to terminate June 30, 2003. Consequently, on July 1, 2003 the tax provisions of the credit returned to their pre-2002 session levels allowing a credit of 40% of any charitable contribution up to \$10,000 for "planned gifts," and 20% of any charitable contribution up to \$10,000 for "outright gifts."

Senate Bill 121 was a follow-up bill to HB143 of the 2001 session, and further reformed Montana's tax laws regarding the taxation of "pass-through entities". HB143 included an enforcement mechanism for the taxation of pass-through entity Montana-source income with respect to resident and non-resident individuals. However, that law did not specifically address the enforcement mechanism for "tiered" pass-through entities; that is, pass-through entities that are owned by other pass-through entities. SB121 essentially extends the concepts and options provided for in HB143 for non-individual owners of entities specifically to owners that are corporations and that are themselves pass-through entities.

Senate Bill 408 allowed certain licensed health care professionals meeting specific qualifications to exclude up to \$5,000 of income from taxation. To be eligible for this exclusion the taxpayer must, among other things, have had a student loan incurred as a result of health-related education; and must have received a loan payment made under a qualifying loan repayment program as described in the bill.

Senate Bill 484 provided for the creation of "empowerment zones" and provided tax credits to qualifying employers hiring new employees within these zones. Empowerment zones, which can be created only by resolution of the governing body of a county, municipality, or consolidated local government, may be created only in areas in which the average unemployment or poverty rate exceeds 150% of the statewide unemployment or poverty rate. Taxpayers must meet certain eligibility requirements to qualify for the tax credits.



Individual and Corporate Income Tax

Electronic Tax Reporting for Employers and Individuals

In this era of “reduced costs/improved service,” the Montana Department of Revenue increasingly relies on electronic commerce for financial reporting.

Electronic Commerce (EC). The realm of technology available to communicate electronically in the business setting.

Electronic Data Interchange (EDI). The electronic transmission of information from one computer or through multiple computers to another computer.

Electronic Funds Transfer (EFT). An electronic remittance, including the transmission of information to ensure the debit/credit of appropriate accounts, which results in payment of a bill, tax, etc.

Electronic Tax Reporting for Employers (ETR). The combination of EDI and EFT specific to the filing of employer tax returns.

Electronic Filing for Individuals (E-file). Electronic data interchange specific to the filing of individual income tax returns.

Automated Clearing House (ACH). Many electronic fund transfer transactions are processed and transmitted via an automated clearing house. The National Association of Clearing House Administrators (NACHA) has developed transmission standards for users.

Current Department Electronic Commerce Projects

Electronic Filing For Individuals (E-file). The Montana Department of Revenue can accept electronically filed income tax returns from resident, part-year, and nonresident taxpayers in a joint project with the Internal Revenue Service. Taxpayers who file electronically with the IRS can have the information sent to the department as well. For tax year 2003 the Department of Revenue expects to process over 195,000 e-file returns. The information is received by the department electronically, reformatted, and input directly into the income tax system. Direct deposit is available to those taxpayers due a refund. Direct debit is available to taxpayers with a tax due.

Telefile for Individual Income Tax Returns. Individual income tax returns can be filed over the telephone. Taxpayers must meet eligibility requirements and be invited to participate in this program. Return information is entered using the telephone keypad. The department can receive these filings 24 hours a day, seven days a week. The telefile computer does all the calculations such as their refund/tax due and provides the taxpayer with a confirmation number. As with e-file, direct deposit of refunds is also available. Since January 1, 1997, the department has processed 145,464 returns with telefile.

Electronic Tax Reporting for Employers (ETR). Electronic Tax Reporting consists of both the electronic reporting and the electronic payment of the tax (EFT). ETR is accomplished through either an ACH credit or ACH debit. An ACH credit occurs when the taxpayer contacts his/her own bank to initiate a funds transfer. Included with the money is an information record which acts as the remittance advice. Under the ACH debit option, the taxpayer sends the electronic file directly to the department by using an on-line application. The file consists of the remittance information and authorizes the department to withdraw



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a specific amount of money from the taxpayer's bank account on a specific date. These banking transactions are easily automated, requiring very little human intervention.

Benefits of Electronic Commerce. These programs lessen the strain on current operations. Labor intensive, error prone manual processes are reduced. Electronic filing eliminates the need for opening envelopes and extracting information, manual sorting, data entry, error correction, and document storage and retrieval. In addition, electronic payment eliminates the need for a cashiering function.

Taxpayers benefit through the ease in filing and refunds are received in a timely manner. The programs have an acknowledgment process that is not included in paper return processing. The taxpayer receives notification that the department has accepted the return.

For updated information please see our web site at: www.discoveringmontana.com/revenue.



Individual and Corporate Income Tax

Calculation of Individual Income Tax

Total Income: Total income includes wages and salaries; interest and dividends; net business income; capital and supplemental gains income; rent, royalty and partnership income; social security and pension income; net farm income; unemployment compensation; state refunds, alimony and any other miscellaneous income.

Less Adjustments To Income:

- Education expenses and student loan interest
- IRA/Keogh deductions
- Self-employment taxes (50%)
- Self-employment insurance deductions
- Alimony paid
- Moving expenses

Equals: Federal Adjusted Gross Income (FAGI)

Plus Additions and Less Subtractions:

Additions

- Non-Montana local government interest
- Federal tax refunds
- Other additions

Subtractions

- Farm risk management account contributions
- Elderly interest exclusion
- U.S. savings bond interest exclusion
- Exempt pension and annuity income
- Unemployment benefits
- Contributions to:
 - Medical savings accounts
 - First-time homebuyers savings accounts
 - Family education savings accounts
- Health care professional loan payments
- Other reductions (see tax form instructions)

Equals: Montana Adjusted Gross Income (MAGI)

Less itemized deductions or standard deduction

Less personal exemptions

Equals: Montana Taxable Income

Times Tax Table Rate

Equals: Tax Before Credits

Less Credits: Rural physician credit, college contribution credit, planned gift credit, elderly care credit, credit for taxes paid to other states/countries, contractor's gross receipts credit, alternative energy systems credit, conservation credit, alternative energy production credit, recycling credit, dependent care credit, health insurance for uninsured Montanans credit, preservation of historic buildings credit, developmental disabilities contribution credit, empowerment zone credit and other credits (see tax form instructions).

Equals: Tax After Credits



Individual and Corporate Income Tax

Montana Individual Income Tax

Comparison of Return Data, Full-Year Residents 2002 vs. 2003

Item of Information	TY 2002		TY 2003		Difference in Total	
	Count	Total	Count	Total	Absolute	Percent
EXEMPTIONS						
Taxpayer exemptions	388,453	451,547	390,406	454,385	2,838	0.63%
Spouse exemptions	171,903	197,413	172,322	198,186	773	0.39%
Dependent exemptions	126,506	222,410	126,274	222,177	(233)	-0.10%
Handicapped children exemptions	1,326	<u>1,394</u>	1,403	<u>1,463</u>	<u>69</u>	<u>4.95%</u>
Total Exemptions	482,021	872,764	484,363	876,211	3,447	0.39%
INCOME ITEMS						
Wages, salaries, tips, etc.	382,855	9,265,904,285	385,362	9,649,686,526	383,782,241	4.14%
Interest income	265,225	528,958,537	251,361	453,025,235	(75,933,302)	-14.36%
Dividend income	134,265	264,875,326	129,073	297,422,847	32,547,521	12.29%
Net business income	74,187	620,571,881	75,240	629,701,263	9,129,382	1.47%
Capital gain or (loss)	112,243	637,443,506	111,022	790,912,922	153,469,416	24.08%
Supplemental gain or (loss)	16,028	32,565,301	16,398	55,546,743	22,981,442	70.57%
Rents, royalties & partnerships	85,241	1,014,593,070	86,402	1,019,724,460	5,131,390	0.51%
Net farm income	21,553	(157,524,702)	21,166	(146,211,074)	11,313,628	7.18%
Taxable social security	40,601	254,248,840	41,807	267,287,155	13,038,315	5.13%
Taxable IRA's, pensions & annuities	0	1,250,388,707	0	1,307,739,052	57,350,345	4.59%
Taxable individual retirement acc'ts	28,858	231,216,869	30,341	237,257,497	6,040,628	2.61%
Taxable pensions & annuities	78,054	1,019,171,838	79,789	1,070,481,555	51,309,717	5.03%
Other income	151,998	<u>(5,377,242)</u>	150,417	<u>(47,935,941)</u>	<u>(42,558,699)</u>	<u>-791.46%</u>
Total Income	481,285	13,706,647,509	483,517	14,276,899,188	570,251,679	4.16%
IRA/Keogh/Self-empl. deductions	116,598	252,613,291	121,712	292,240,897	39,627,606	15.69%
Federal Adjusted Gross Income	481,219	13,454,034,218	483,482	13,984,658,291	530,624,073	3.94%
ADDITIONS						
Interest on local gov't bonds	14,756	43,230,217	14,893	44,962,241	1,732,024	4.01%
Federal income tax refunds	124,242	247,312,164	127,012	256,907,579	9,595,415	3.88%
Other additions	34,579	<u>150,548,387</u>	37,992	<u>177,862,268</u>	<u>27,313,881</u>	<u>18.14%</u>
Total Additions	153,057	441,090,768	157,393	479,732,088	38,641,320	8.76%
FAGI Plus Additions	481,303	13,895,124,986	483,533	14,464,390,379	569,265,393	4.10%
REDUCTIONS						
Farm risk management account	22	61,948	48	872,912	810,964	1309.10%
Elderly interest exclusion	61,366	43,310,418	60,798	40,099,155	(3,211,263)	-7.41%
Savings bonds interest exclusion	30,308	59,642,270	26,395	47,157,089	(12,485,181)	-20.93%
Exempt retirement income	45,874	166,435,046	46,088	168,680,258	2,245,212	1.35%
Unemployment compensation	28,460	78,266,420	29,714	85,701,639	7,435,219	9.50%
Medical savings accounts	4,668	9,937,218	5,276	11,398,465	1,461,247	14.70%
Family education savings accounts	2,098	5,479,782	2,487	6,583,685	1,103,903	20.15%
First-time home buyers accounts	362	928,656	377	1,067,385	138,729	14.94%
Health care professional loan payment excl.	n.a.	n.a.	140	381,209	381,209	n.a.
Other reductions	142,965	<u>496,250,650</u>	139,969	<u>530,169,050</u>	<u>33,918,400</u>	<u>6.83%</u>
Total Reductions	219,962	860,312,408	218,284	892,110,847	31,798,439	3.70%
MT ADJ GROSS INCOME	477,419	13,034,812,578	479,305	13,572,279,532	537,466,954	4.12%



Individual and Corporate Income Tax

Montana Individual Income Tax

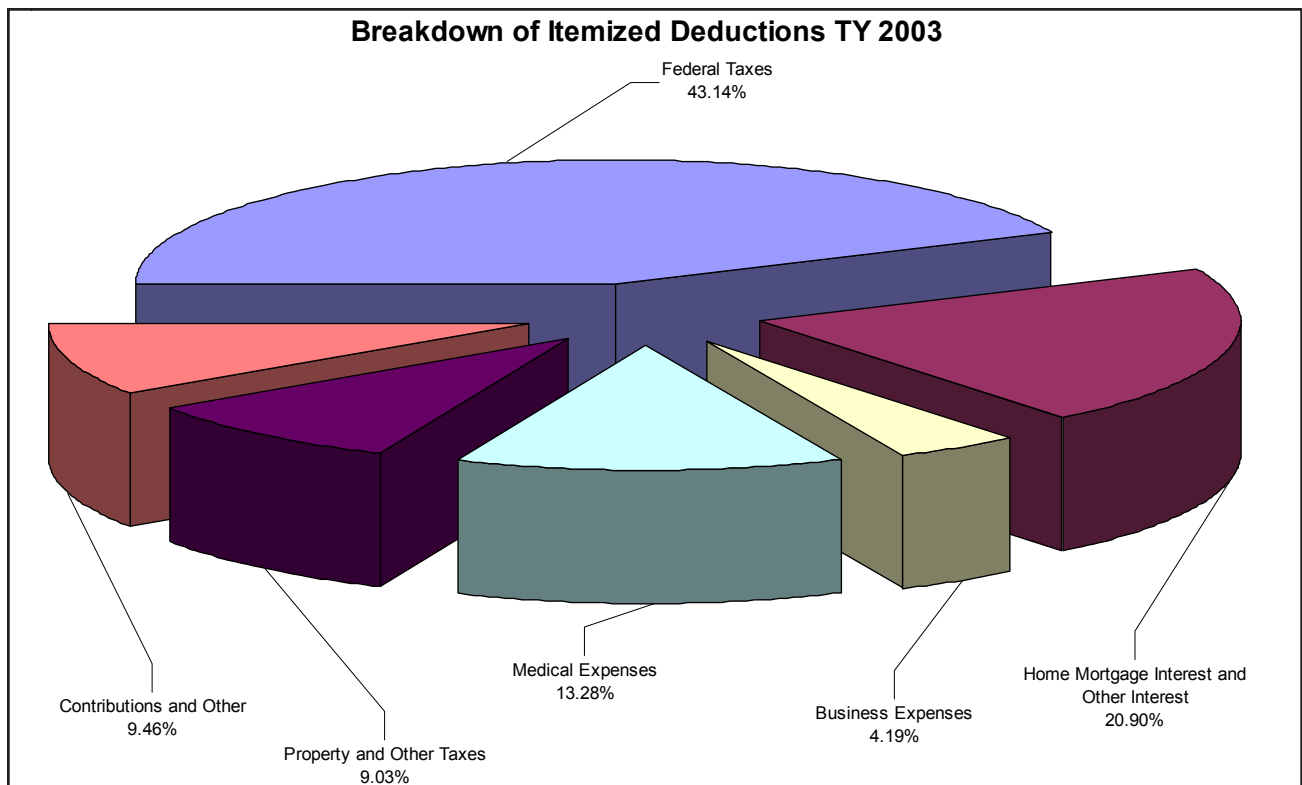
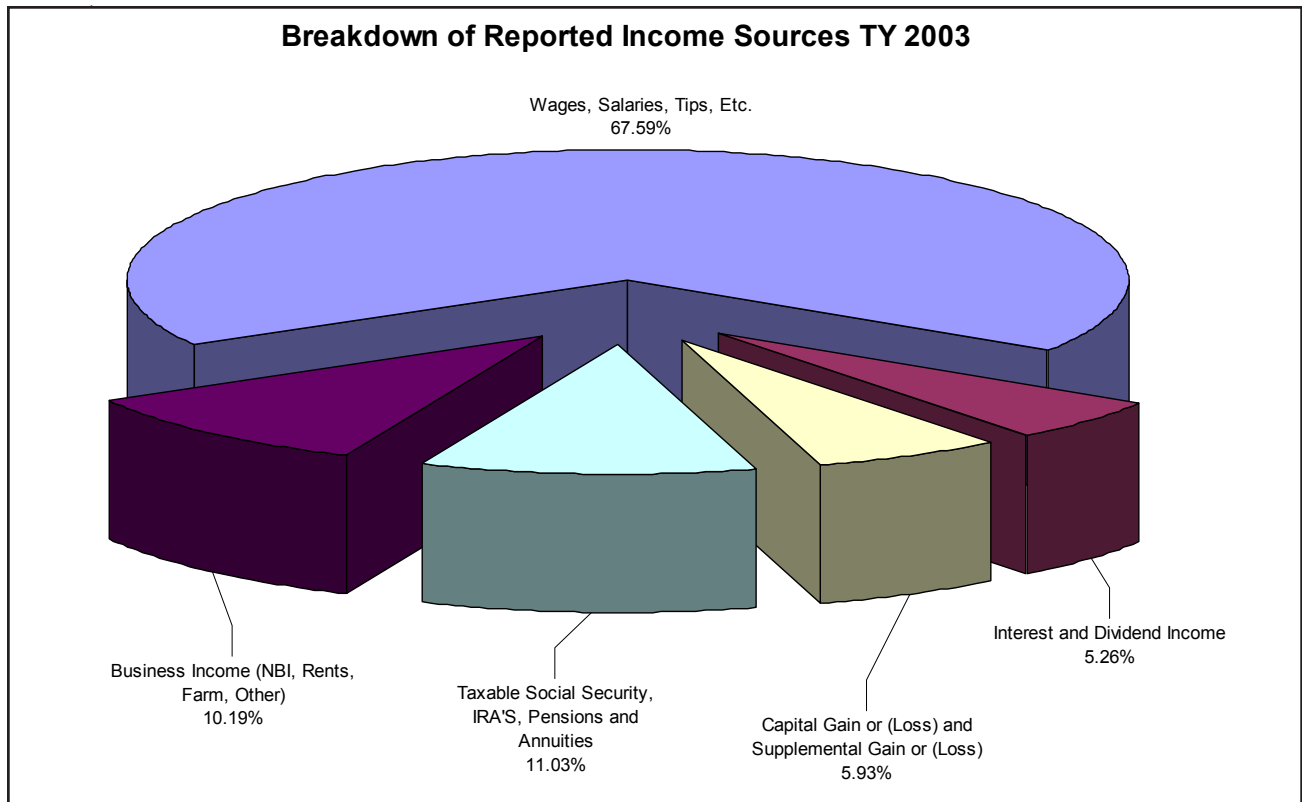
Comparison of Return Data, Full-Year Residents 2002 vs. 2003

Item of Information	TY 2002		TY 2003		Difference in Total	
	Count	Total	Count	Total	Absolute	Percent
ITEMIZED DEDUCTIONS						
Medical insurance premiums	105,703	239,493,910	92,300	234,737,082	(4,756,828)	-1.99%
Medical and dental	69,766	222,983,052	70,877	236,626,833	13,643,781	6.12%
Long term care insurance premiums	9,384	15,887,210	9,838	17,295,360	1,408,150	8.86%
Federal income tax withheld	220,901	976,047,102	220,855	986,983,234	10,936,132	1.12%
Federal estimated tax paid	49,892	486,933,537	45,397	450,627,639	(36,305,898)	-7.46%
Federal advance payment (TY2003 only)	n.a.	n.a.	49,427	(25,795,362)	(25,795,362)	n.a.
Federal income tax balance	52,925	168,575,424	44,504	159,994,983	(8,580,441)	-5.09%
Federal income tax additional years	4,034	12,960,763	4,583	15,246,921	2,286,158	17.64%
Property taxes	189,452	274,873,159	188,925	291,351,060	16,477,901	5.99%
Other deductible taxes	130,980	39,533,367	131,651	40,720,924	1,187,557	3.00%
Home mortgage interest	144,375	752,226,098	144,774	744,358,655	(7,867,443)	-1.05%
Other interest	9,378	27,933,231	9,064	24,518,357	(3,414,874)	-12.23%
Charitable contributions	177,303	345,228,308	175,608	337,410,601	(7,817,707)	-2.26%
Child/dependent care expenses	1,196	1,667,803	1,110	1,704,198	36,395	2.18%
Casualty and theft losses	457	4,464,106	423	4,105,444	(358,662)	-8.03%
Employee business exp/other (Misc 1)	54,204	146,328,492	54,071	146,982,049	653,557	0.45%
Other misc. deductions (Misc 2)	1,741	4,266,845	1,465	7,147,014	2,880,169	67.50%
Gambling Losses	960	4,846,199	897	4,674,101	(172,098)	-3.55%
Total Itemized	278,530	3,724,248,606	275,568	3,678,689,093	(45,559,513)	-1.22%
TOTAL DEDUCTIONS	477,916	4,212,063,322	479,599	4,221,930,016	9,866,694	0.23%
VALUE OF EXEMPTIONS	482,021	1,518,609,340	484,363	1,559,655,580	41,046,240	2.70%
MONTANA TAXABLE INCOME	397,339	8,074,343,167	399,823	8,623,646,928	549,303,761	6.80%
Tax	397,337	494,137,275	399,823	538,203,804	44,066,529	8.92%
Tax on lump sum distributions	108	78,920	103	42,438	(36,482)	-46.23%
Tax before credits	397,348	494,216,195	399,834	538,246,242	44,030,047	8.91%
Investment credit recapture	30	3,175	4	153	(3,022)	-95.18%
Recapture tax and withdrawal penalties	n.a.	n.a.	32	5,332	5,332	n.a.
Montana tax withheld	371,572	398,225,812	374,754	420,984,542	22,758,730	5.72%
Estimated payments	44,734	120,904,288	42,491	124,263,363	3,359,075	2.78%
Payment made with extension	n.a.	n.a.	2,386	11,767,137	11,767,137	n.a.
Elderly homeowner/renter credit	14,211	6,883,615	15,448	7,719,936	836,321	12.15%
Total Payments	408,874	526,013,715	411,922	564,734,978	38,721,263	7.36%
CREDITS						
Physician credit for rural practice	84	405,666	83	338,643	(67,023)	-16.52%
College contribution credit	2,046	166,369	2,132	148,470	(17,899)	-10.76%
Charitable endowment credit	676	1,610,509	707	2,138,608	528,099	32.79%
Elderly care credit	35	27,493	31	21,041	(6,452)	-23.47%
Other state/foreign tax credit	10,119	14,013,510	10,171	14,479,498	465,988	3.33%
Contractor's gross receipts credit	324	613,178	306	776,635	163,457	26.66%
Alternative energy systems credit	472	228,283	656	300,489	72,206	31.63%
Energy conservation credit	4,986	1,305,788	8,916	2,440,965	1,135,177	86.93%
Alternative energy production credit	34	13,312	25	11,174	(2,138)	-16.06%
Recycling credit	46	66,369	45	121,309	54,940	82.78%
Dependent care assistance credit	7	3,897	9	8,484	4,587	117.71%
Employee health insurance credit	94	61,113	209	137,398	76,285	124.83%
Historic bldg. preservation credit	20	74,777	7	17,810	(56,967)	-76.18%
Developmental disability account credit	n.a.	n.a.	0	0	0	n.a.
Empowerment zone credit	n.a.	n.a.	0	0	0	n.a.
Other credits	n.a.	364,774	39	178,460	(186,314)	-51.08%
Total Credits	18,202	18,955,038	22,269	21,118,984	2,163,946	11.42%



Individual and Corporate Income Tax

Components of Income Reported for Individual Income Tax





Individual and Corporate Income Tax

Comparison of Income and Tax Paid by Decile Group

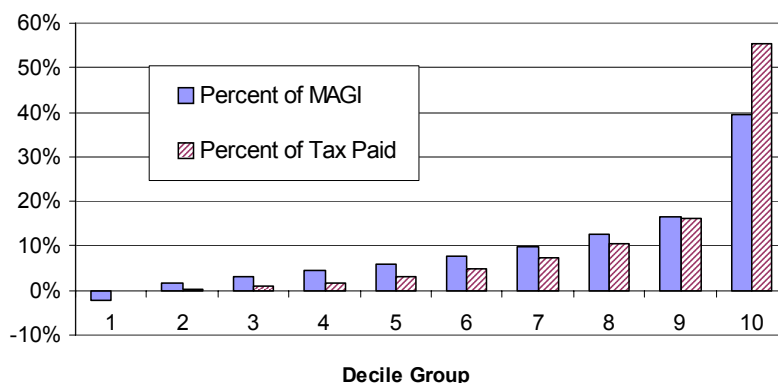
Decile Grouping is a very useful tool in tax burden analysis. The population is divided into ten equal groups by income level. Group 1 includes 10% of the population with the lowest incomes, while group 10 represents 10% of the population with the highest incomes. The following table and chart show the tax year 2003 decile groups for full-year resident taxpayers, the percent of total Montana adjusted gross income for each decile group, and the percent of total tax paid by each decile group.

The progressive nature of Montana's individual income tax is highlighted by noting that in every decile group except the highest (decile group 10) the share of income received exceeds the share of total tax paid. In the highest income bracket, taxpayers received nearly 40% of total Montana adjusted gross income, and paid just over 55% of the total tax liability.

**Share of Montana Adjusted Gross Income (MAGI) and Total Tax Liability
By Decile Group, Tax Year 2003**

Decile Group	Percent MAGI	Percent of Tax Paid
1	-2.20%	0.00%
2	1.74%	0.23%
3	3.08%	0.83%
4	4.54%	1.74%
5	6.09%	3.06%
6	7.82%	4.89%
7	9.95%	7.39%
8	12.70%	10.55%
9	16.66%	16.04%
10	39.64%	55.27%

**Share of MAGI and Tax Liability by Decile Group
Full-Year Residents, Tax Year 2003**



**Montana Individual Income Tax Returns
Effective Tax Rate by Decile Group
Full-Year Resident Taxpayers, Tax Year 2003**

Decile Group	Adjusted Gross Income Range	Adjusted Gross Income	Total Tax Liability	# of Returns in Bracket	Average Tax per Taxpayer	Effective Tax Rate
1	<\$3,042	(\$299,257,296)	\$16,111	48,436	\$0.33	0.00%
2	\$3,043 - \$6,721	235,962,362	1,221,488	48,436	25.22	0.52%
3	\$6,722 - \$10,609	418,022,212	4,476,479	48,436	92.42	1.07%
4	\$10,610 - \$14,853	615,618,570	9,373,341	48,436	193.52	1.52%
5	\$14,854 - \$19,363	825,983,409	16,458,123	48,436	339.79	1.99%
6	\$19,364 - \$24,609	1,061,041,666	26,326,972	48,436	543.54	2.48%
7	\$24,610 - \$31,461	1,350,260,471	39,762,497	48,436	820.93	2.94%
8	\$31,462 - \$40,184	1,723,034,673	56,796,515	48,436	1,172.61	3.30%
9	\$40,185 - \$55,232	2,261,406,198	86,310,000	48,436	1,781.94	3.82%
10	\$55,233 and over	5,380,207,267	297,462,278	48,436	6,141.35	5.53%
Totals		\$13,572,279,532	\$538,203,804	484,360	\$1,111.16	3.97%



Individual and Corporate Income Tax

Summary of Tax Credits

Summary of Tax Credits - Full-Year Residents						
CREDITS	Tax Year 2002			Tax Year 2003		
	Total Value of Tax Credits	Number of Returns	Average Tax Credit per Return	Total Value of Tax Credits	Number of Returns	Average Tax Credit per Return
Physician credit for rural practice	\$405,666	84	\$4,829	\$338,643	83	\$4,080
College contribution credit	166,369	2,046	81	148,470	2,132	70
Charitable endowment credit	1,610,509	676	2,382	2,138,608	707	3,025
Elderly care credit	27,493	35	786	21,041	31	679
Other state/foreign tax credit	14,013,510	10,119	1,385	14,479,498	10,171	1,424
Contractor's gross receipts credit	613,178	324	1,893	776,635	306	2,538
Alternative energy systems credit	228,283	472	484	300,489	656	458
Energy conservation credit	1,305,788	4,986	262	2,440,965	8,916	274
Alternative energy production credit	13,312	34	392	11,174	25	447
Recycling credit	66,369	46	1,443	121,309	45	2,696
Dependent care assistance credit	3,897	7	557	8,484	9	943
Employee health insurance credit	61,113	94	650	137,398	209	657
Historic bldg. preservation credit	74,777	20	3,739	17,810	7	2,544
Developmental disability account credit	194,163	3	64,721	0	0	n.a.
Other credits	170,611	n.a.	n.a.	178,460	39	4,576
Total Credits	\$18,955,038	18,202	\$1,041	\$21,118,984	22,269	\$948

Comparison of Itemized vs. Standard Deduction Filers Full-Year Resident Filers, Tax Year 2003

Item	Standard Deductions	Allowable Itemized Deductions	Totals
Number of Returns	195,638	284,725	480,363
Percent of Returns	41%	59%	100%
Total Deductions	\$541,727,016	\$3,680,203,000	\$4,221,930,016
Average Deductions	\$2,769	\$12,925	\$8,789
Taxable Income	\$1,633,466,146	\$6,990,180,782	\$8,623,646,928
Average Taxable Income	\$8,349	\$24,551	\$17,952
Deductions as a Percentage of Taxable Income	33%	53%	49%



Individual and Corporate Income Tax

Ranking of Income Tax Burdens Nationally and Regionally

**Comparison of Individual Income Tax Burdens
All States - Tax Year 2003**

Rank	State	Income Tax Collected (In Thousands)	Personal Income (In Thousands)	Tax Per Thousand \$ Of Personal Income
1	Oregon	4,023,579	104,439,224	38.53
2	New York	22,648,364	701,852,392	32.27
3	Massachusetts	8,026,149	256,143,591	31.33
4	Wisconsin	5,252,500	169,080,678	31.07
5	Minnesota	5,374,550	174,258,567	30.84
6	North Carolina	7,089,142	237,381,527	29.86
7	Maine	1,074,826	37,645,908	28.55
8	California	32,709,761	1,197,550,472	27.31
9	Virginia	6,775,746	248,702,609	27.24
10	Utah	1,569,861	58,731,862	26.73
11	Hawaii	1,037,854	38,876,343	26.70
12	Delaware	711,575	26,821,803	26.53
13	Kentucky	2,813,947	108,101,336	26.03
14	Georgia	6,271,374	255,692,439	24.53
15	Connecticut	3,639,362	150,387,093	24.20
16	Rhode Island	824,870	34,346,326	24.02
17	West Virginia	1,055,523	44,134,314	23.92
18	Idaho	843,780	35,402,793	23.83
19	Ohio	7,916,410	342,438,276	23.12
20	Arkansas	1,528,231	66,204,880	23.08
21	Maryland	4,681,860	205,652,120	22.77
22	Oklahoma	2,113,947	93,602,291	22.58
23	Montana	535,830	23,784,336	22.53
24	Kansas	1,776,884	81,528,880	21.79
25	Vermont	411,343	19,031,411	21.61
26	South Carolina	2,334,066	108,373,678	21.54
27	Michigan	6,519,643	306,820,052	21.25
28	Missouri	3,519,844	166,867,516	21.09
29	Nebraska	1,122,893	53,496,517	20.99
30	Iowa	1,791,129	85,505,765	20.95
31	Colorado	3,235,796	156,009,688	20.74
32	Indiana	3,644,159	178,327,187	20.44
33	New Jersey	6,735,282	349,223,572	19.29
34	New Mexico	923,113	47,879,533	19.28
35	Illinois	7,340,982	426,297,600	17.22
36	Alabama	2,035,538	118,540,440	17.17
37	Pennsylvania	6,661,780	395,669,472	16.84
38	Louisiana	1,867,150	117,355,322	15.91
39	Mississippi	1,020,028	67,559,925	15.10
40	Arizona	2,102,361	149,776,666	14.04
41	North Dakota	199,390	18,510,801	10.77
42	New Hampshire	55,118	44,685,246	1.23
43	Tennessee	115,593	166,228,769	0.70
States With No Individual Income Tax				
44	Alaska	0	21,779,422	0.00
45	Florida	0	518,169,495	0.00
46	Nevada	0	70,072,668	0.00
47	South Dakota	0	22,344,077	0.00
48	Texas	0	649,669,992	0.00
49	Washington	0	204,373,240	0.00
50	Wyoming	0	16,444,753	0.00

Source : State Personal Income - BEA; Individual Income Tax Collections - Census Bureau, USDC

**Individual Income Tax Burden
Regional Ranking**

High - Low Ranking	State	Tax Per \$1,000 PI
1	Oregon	38.53
2	Utah	26.73
3	Idaho	23.83
4	Montana	22.53
5	Colorado	20.74
6	North Dakota	10.77
7	Nevada	0.00
7	South Dakota	0.00
7	Washington	0.00
7	Wyoming	0.00



Individual and Corporate Income Tax

Overview of Corporation License Tax

Montana's corporation license tax is a franchise tax levied on corporations, including banks and savings and loan associations, for "...the privilege of carrying on business in this state." The tax is levied at the rate of 6.75% on net income earned in Montana. Corporations making a "water's edge" election pay tax at a rate of 7%. Corporations whose only activity in Montana consists of making sales, and who do not own or rent real estate or tangible personal property, and whose annual gross income from sales in Montana does not exceed \$100,000 may elect to pay a tax equal to ½ of 1% of gross sales.

The starting point for the Montana corporation license tax is the corporation's federal taxable income. Net operating losses of the corporation may be carried back for a period of three years, and may be carried forward for a period of seven years. Montana is a worldwide, combined unitary state, and corporations conducting business that is taxable both in and outside the state (multistate corporations) are required to allocate income to Montana based on an equally weighted, three-factor apportionment formula. Sales, property and payroll comprise the three factors used in the apportionment formula.

There is a minimum tax of \$50. However, if a corporation has no property, payroll or sales in Montana during the tax period, it is exempt from paying the minimum tax. All Montana corporations not otherwise exempt from the corporation license tax must file a tax return even if they are exempt from the minimum tax.

Corporations electing to file as a subchapter S. corporation for federal income tax purposes must also file as an S. corporation for Montana tax purposes. S. corporations are not subject to tax; instead, the income of these corporations flows through to individual shareholders and is subject to the state's individual income tax.

Organizations exempt from the corporation license tax include labor, agricultural or horticultural organizations; nonprofit corporations; fraternal organizations, societies or associations; and domestic international sales corporations (DISCs). Research and development (R&D) firms organized to engage in business for the first time in Montana are not subject to the corporation license tax for the first five years of operation.

Corporation License Tax Returns Returns Filed in FY 2004

Regular Corporations	16,297
S. Corporations	19,328
Total Corporations	35,625
Corporations Paying \$50 Min. Tax	9,878
Corporations Paying More Than \$50 Tax	5,447
Corporations Paying No Tax	972
Total Regular Corporations	16,297



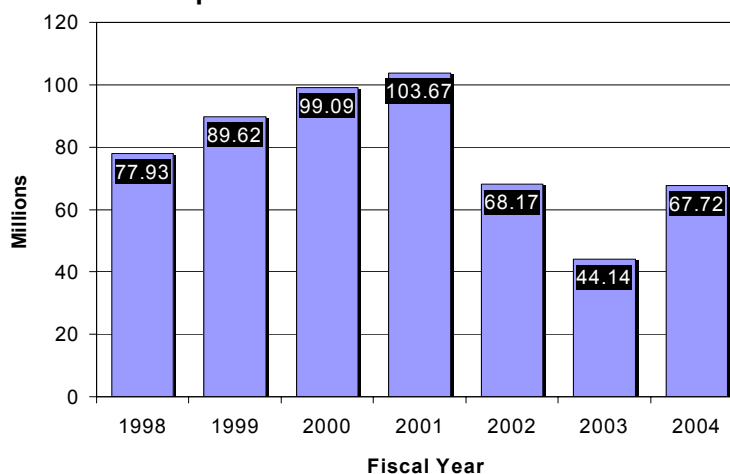
Individual and Corporate Income Tax

The table and chart below show total corporation license tax collections from fiscal years 1998 to 2004. Under current law, 100% of corporation license taxes are deposited in the state general fund.

Corporation License Tax Collections

FY1998	\$77,928,498
FY1999	\$89,624,559
FY2000	\$99,088,870
FY2001	\$103,670,487
FY2002	\$68,173,254
FY2003	\$44,137,518
FY2004	\$67,722,940

Corporation License Tax Collections



Corporations may claim one or more of twenty different tax credits. Detailed descriptions of these credits are provided in the tax expenditure section of this report. Among the more commonly used credits are the contractor's gross receipts tax credit; the charitable endowment contribution credit; the college contribution credit; the Montana Capital Company credit; the employer disability insurance credit; and the recycling credit. The following table shows credit usage for the past two fiscal years. In addition to credits claimed on original returns filed during the fiscal year, some of the credits shown below were claimed on amended returns received during the fiscal year.

Montana Corporation License Tax Credits

Credit	Fiscal Year 2003		Fiscal Year 2004	
	Number of Corps	Credit Amount	Number of Corps	Credit Amount
1 Contractor's Gross Receipts Tax Credit	112	\$955,804	78	\$972,698
2 Infrastructure Users Fee Credit	3	533,813	2	814,362
3 Credit for Increasing Research Activities	11	352,236	15	311,483
4 Charitable Endowment Credit	77	425,846	52	117,618
5 Historic Building Preservation Credit	3	30,948	3	111,843
6 Employer Disability Insurance Credit	16	18,888	17	19,433
7 Credit for Alternative Fuel Motor Vehicle Conversion	1	3,000	2	12,267
8 College Contribution Credit	23	5,413	24	6,480
9 Recycling Credit	9	5,440	4	2,718
10 Montana Capital Company Credit	14	934	15	2,716
11 Dependent Care Assistance Credit	1	1,672	1	50
Total Credits		\$2,333,994		\$2,371,668



Individual and Corporate Income Tax

Filing Dates

The corporation license tax return is due on the 15th day of the fifth month following the end of the corporation's taxable year. Corporations are entitled to an automatic six month extension for filing a return, with tax plus interest due at the time the return is filed.

Estimated Payments

Corporations whose estimated tax for the period is \$5,000 or more are required to make quarterly estimated tax payments on the 15th day of the fourth, sixth, ninth, and twelfth months of their tax year. The required annual total estimated payment is 80% of the tax shown on the return, or 100% of the tax for the prior year.

Penalties and Interest

Corporations who fail to pay a tax when due may be assessed a late payment penalty of 1.5% per month on the unpaid tax, up to a maximum penalty of 18% of the tax due. Interest on unpaid taxes accrues at the rate of 12% per year, accrued at 1% per month or fraction of a month on the unpaid tax.



Individual and Corporate Income Tax

Comparison of Corporation License Tax Rate with Other States

Ranking of States By Maximum Corp. Tax Rate

All States Highest to Lowest, Tax Year 2004

Rank	State	Maximum Tax Rate
1	Iowa**	12.00%
2	North Dakota**	10.50%
3	Pennsylvania	9.99%
4	Minnesota	9.80%
5	Vermont**	9.75%
6	Massachusetts	9.50%
7	Alaska**	9.40%
8	New Jersey	9.00%
9	Rhode Island	9.00%
10	West Virginia	9.00%
11	Maine**	8.93%
12	California	8.84%
13	Delaware	8.70%
14	Indiana	8.50%
15	New Hampshire	8.50%
16	Ohio**	8.50%
17	Kentucky**	8.25%
18	Louisiana**	8.00%
19	Wisconsin	7.90%
20	Nebraska**	7.81%
21	Idaho	7.60%
22	New Mexico**	7.60%
23	Connecticut	7.50%
24	New York	7.50%
25	Illinois	7.30%
26	Maryland	7.00%
27	Arizona	6.97%
28	North Carolina	6.90%
29	Montana	6.75%
30	Oregon	6.60%
31	Alabama	6.50%
32	Arkansas**	6.50%
33	Tennessee	6.50%
34	Hawaii**	6.40%
35	Missouri	6.25%
36	Georgia	6.00%
37	Oklahoma	6.00%
38	Virginia	6.00%
39	Florida	5.50%
40	Mississippi**	5.00%
41	South Carolina	5.00%
42	Utah	5.00%
43	Colorado	4.63%
44	Kansas	4.00%
45	Michigan*	0.00%
46	Nevada*	0.00%
47	South Dakota*	0.00%
48	Texas*	0.00%
49	Washington*	0.00%
50	Wyoming*	0.00%

There are 44 states that have a similar tax. The table to the left shows that corporation tax rates vary from a low of 4% in Kansas to a high of 12% in Iowa. Among all states, Montana ranks 29th with a rate of 6.75%.

The table below provides a regional ranking of corporation tax rates.

Maximum Corporation License Tax Regional Ranking

Rank	State	Maximum Tax Rate
1	North Dakota	10.50%
2	Idaho	7.60%
3	Arizona	6.97%
4	Montana	6.75%
5	Oregon	6.60%
6	Utah	5.00%
7	Nevada	0.00%
7	Wyoming	0.00%
7	Washington	0.00%

Source: Federation of Tax Administrators (Tax Rates as of January 1, 2004)

*States with no corporation tax (Nevada, Washington, and Wyoming), with an alternative form of tax not necessarily based on income (Michigan and Texas), or tax on financial institutions only (South Dakota).

**States with a graduated rate corporation income tax (highest rate shown).